United Nations DP/2007/8

Executive Board of the United Nations Development Programme and of the United Nations Population Fund

Distr.: General
3 January 2007

Original: English

First regular session 2007
19 to 26 January 2007, New York
Item 3 of the provisional agenda
Programming arrangements

Assessment of programming arrangements, 2004-2007*

Summary

In its decisions 2002/18 and 2005/26 concerning the programming arrangements for 2004-2007, the Executive Board requested UNDP to undertake an assessment of the current arrangements as part of its preparation for the next programming period (2008-2011), and to submit this assessment to the first regular session 2007 of the Executive Board. The Executive Board has also requested UNDP to submit, in the context of the preparations for the strategic plan, 2008-2011, a proposal for future synchronization of the processes leading to the endorsement of future strategic plans and programme financial frameworks. UNDP has moved from a three-year to a four-year programming arrangements framework. Accordingly, the UNDP biennial support budget, programming arrangements framework, and strategic plan will be submitted concurrently – at the same Executive Board session – once every four years, beginning in September 2007.

In view of this first-time synchronization, and in consideration of internal and external initiatives that will inform the structure and content of the next programming arrangements, this report is limited to an assessment of the current programming arrangements.

The present report, which presents issues arising from the assessment of existing programming arrangements, lays the foundation for a series of consultations with the Executive Board that will take place starting in January 2007, which will lead to the joint presentation in September 2007 of the 2008-2011 strategic plan, the 2008-2011 programming arrangements, and the 2008-2009 results-based support budget.

*The compilation of data required to provide the Executive Board with the most current information has delayed submission of the current report.

07-20136 (E) 180107

Contents

Chapter		*Pages*
I.	Introduction and background	3
II.	Scope and objective of the review	4
III.	Review of cross-cutting aspects of programming arrangements	4
	A. Legislative context of the current arrangements	5
	B. How to measure effectiveness?	7
	C. The financial framework	7
	D. Fixed and variable lines	9
	E. Annual targets for regular resources	9
IV.	Review of selected line components of the programming arrangements	10
	A. The TRAC system	10
	B. Review of other programming lines	15
V.	Conclusion and next steps	18
Annexes		
	1. Annualized application of resources at $450 million for the period 2004-2007	19
	2. Annualized application of resources at $450 million and above $450 million for the period 2004-2007	20
	3. Countries with TRAC-2 percentages against TRAC-1 exceeding 100%	21

I. Introduction and background

1. The ability of UNDP to deliver effective support for capacity development, including with the help of earmarked funding, depends on a level of untied voluntary – or 'core' – funding that allows long term effectiveness. Development is a large-scale, long-term challenge that requires a long-term strategic focus while maintaining tactical flexibility and response capacity to respond to crisis or opportunity. In the current context of a multi-funded UNDP, and in spite of the increasing level of tied voluntary contributions (other resources) over the last several years, the importance of core contributions as the bedrock of UNDP funding sustainability cannot be overemphasized. Regular resources constitute a critical programming platform for delivering development results, which in turn catalyses additional resource mobilization. Additional core resources are needed in the funding mix to allow UNDP to perform effectively.

2. The currently defined role and purpose of regular resources is threefold: (a) to fund programmes at the country, regional and global levels; (b) to support the role of UNDP as manager of resident coordinator system; and (c) to support UNDP operational capacities[1]. The term 'programming arrangements' refers to the set of allocation parameters developed over the years around voluntary contributions to UNDP earmarked for programmatic activities over a given four-year programming cycle. Each cycle brings about a new – or 'successor' – set of programming resource frameworks that aims to utilize available core funding as effectively as possible, to facilitate expansion of the UNDP resource base, and to promote joint resource mobilization with programme countries. The challenge for UNDP in the next programming cycle, then, is to determine where and how core resources can generate maximum development impact, while at the same time ensuring implementation of the United Nations reform agenda.

3. In its decisions 2002/18 and 2005/26 on the 2004-2007 programming arrangements, the Executive Board requested UNDP to undertake an assessment of current programming arrangements as part of its preparation for the next programming period (2008-2011), and to submit that assessment to the first regular session 200 of the Executive Board. The Board has also requested UNDP to submit, in the context of preparations for the 2008-2011 strategic plan, a proposal for future synchronization of the processes leading to the endorsement of future strategic plans and programme financial frameworks. As we have moved from a three-year programme financial framework to a four-year framework of the programming arrangements starting in 2004, the UNDP biennial support budget and the financial framework for regular programme resources have to be submitted at the same

[1] One of the better sources stating the objectives of the programming arrangements in the context of 'core resource planning' is the *Overview of the Three-Year, Rolling Resource Planning System under the Successor Programming Arrangements*, 20 August 1997, pp. 1-3. Paragraph 1 states:

"Regular resource planning in UNDP is designed to address the difficulties inherent in advance programming over a multi-year period, within the constraints of a system of annual, voluntary contributions. The [...] system aims to balance the need for a certain degree of resource predictability for programme planning with the uncertainties associated with longer-term forecasts of resource availability."

Executive Board session at least every four years[2]. The synchronization of the three exercises is therefore of paramount importance.

4. The review is being undertaken in a dynamic environment characterized by rapid changes in the area of international development assistance and by intense reform efforts within the United Nations system. The new UNDP strategic plan for 2008-2011 will provide the strategic context for recommended major reforms seen to impact substantively future UNDP policy, directions, strategies, operations and funding.

5. Hence, the present review is preliminary in the sense that a successor arrangement can only be proposed at such a time as the UNDP strategic plan becomes available, since the programming arrangements and allocation of core resources will be one of the principal means of implementing that strategy.

II. Scope and objectives of the review

6. The review has been phased and synchronized with the other strategic planning activities currently underway in UNDP. The scope of the review includes:

(a) The continued relevance of the current programme finance framework, its structure and components, fixed and variable lines, and overall categorization of the financial framework.

(b) The changes introduced for resource allocation, such as the minimum TRAC-1 for non-net contributor countries, allocation to multi-country offices, the one-pool model, the net contributor countries status, and the current enhanced TRAC-2 allocation framework.

The results of this review focus primarily on the general effectiveness of performance of the programming arrangements, structure of the financial framework and a number of individual lines or programme elements.

III. Review of cross-cutting aspects of current programming arrangements

7. This chapter examines the overall effectiveness of the programming arrangements by looking at macro-level or cross-cutting issues. The assessment is based on the existing legislative context and the indicators by which effectiveness or performance can be gauged.

8. Macro-level issues relate to the financial framework, the distinction between fixed and variable lines, and the setting of annual targets for core resources. Some issues of a more technical nature are also addressed, and individual line components are reviewed.

9. First, a brief description of the existing legislative context is provided, followed by a note on measuring effectiveness.

[2] Executive Board decision 2002/10

A. Legislative context of the current arrangements

10. The currently defined role of regular resources is threefold: to fund programmes and other initiatives at the country and inter-country levels, to support selected high priority initiatives such as South-South and the RC function, and to support the UNDP infrastructure as the United Nation's leading global development agency. The legislation governing the programming arrangements focuses on the planning of regular or core resources, which is designed to *"address the difficulties inherent in advance programming over a multi-year period, within the constraints of a system of annual, voluntary contributions. The [...] system aims to balance the need for a certain degree of resource predictability for programme planning with the uncertainties associated with longer-term forecasts of resource availability."*[3]

11. The main issues, options and proposals for legislative changes to the current arrangements emanated from internal reviews of the previous arrangements in 2001-2002 as well as from UNDP strategies reflected in *The Way Forward. The Administrator's Business Plans, 2000-2003*. Underlying the legislation of the current arrangements was the continued importance of regular resources as the 'bedrock' of UNDP programming and operations.

(a) *Current principles and overall financial parameters*. No changes were proposed by the Administrator at the time, and the Executive Board subsequently confirmed these principles and financial parameters in their decision on the current arrangements.

(b) *Changes in the TRAC distribution model*. Specific options for change were proposed in the then-existing TRAC distribution arrangements. The subsequent Executive Board decisions resulted in the acceptance of a number of the proposals, which are discussed later on in this chapter.

(c) *Changes in the programming arrangements for specific programme lines*. Options and proposals addressed issues relating to the distribution of resources among the different programme lines, as well as possible changes in the programming arrangements for specific lines. The proposals and subsequent Executive Board decisions were aimed at (i) simplifying existing arrangements; (ii) making the concerned funds more responsive to present-day realities and demands from programme countries; (iii) bringing current arrangements more closely into line with the overall objectives of the UNDP business plans; and (iv) allowing for greater flexibility for opportunity-driven programme-resource allocations.

(d) *Possible changes of special relevance for ongoing and/or future harmonization efforts in the United Nations system*. Executive Board decision 2002/18 encompassed a number of technical and incremental changes to the previous programming arrangements. These are highlighted in box 1, below. The Executive Board had also decided, in its decision 2002/10, to extend the programming period from three years to four, in order to synchronize it with the 2004-2007 multi-year funding framework.

[3] See *Overview of the Three-Year, Rolling Resource Planning System under the Successor Programming Arrangements*, UNDP, 20 August 1997, pp. 1-3. Paragraph 1.

Box 1. The 2004-2007 programming arrangements: Main legislative changes and features

1 The shift to fixed and variable lines

2 Reallocation of SPPD/STS to TRAC 1.1.1 and 1.1.2 and to the RC line

3 Establishment of fixed annual absolute amounts to selected components
- HDRO ($5.3 million)
- ODS ($1.1 million)
- Economist ($4.5 million)
- DSS ($6 million)
- RC ($13.5 million)
- EO ($2.5 million)
- TCDC (South-South, $3.5 million)

- Allocations to variable lines*
  - TRAC 1.1.1 and 1.1.2 (78.8%)
  - TRAC 1.1.3 (7.2 %)
  - Regional programmes (9%)
  - Global programmes (5%)
  - Annual planning base of $450 million and adjustments

- TRAC distribution methodology
  - Existing formula no longer applied to two separate pools
  - LIC allocation range set at 85 – 91%
  - Minimum allocation of $350,000 to all non-NCCs and multi-country offices (plus use of TRAC 1.1.2 to compensate for TRAC 1.1.1 shortfalls)
  - Mid-term recalculation of TRAC 1.1.1 earmarkings
  - Special arrangements for NCCs that experience a 25% drop in GNI/capita
  - Extension of NCC grace period from 3 years to 4.

*Available programme resources, net of fixed-line amounts

Abbreviations used in box:

DSS: development support services; EO: Evaluation Office; HDRO: Human Development Report Office; LIC: low-income country; NCC: net contributor country; ODS: Office of Development Studies; RC: resident coordinator; SPPD: support services for policy and programme development; STS: support for technical services as the project level; TCDC: technical cooperation among developing countries

12. The 2005 midterm review of the programming arrangements for 2004-2007 provided an opportunity to consider further alignment of programme resource earmarkings that affected two interrelated areas. The first was a midterm recalculation of target for resource assignment from the core (TRAC) line 1.1.1 earmarkings for the last two years of the 2004-2007 programming period. The second involved a change in earmarkings between TRAC lines 1.1.1 and 1.1.2 for available resources over the base total programming level of $450 million to provide UNDP with flexibility in supporting urgent programme country national capacity-development needs towards achieving the Millennium Development Goals

(MDGs).[4] Executive Board decision 2005/26 resulted in the following adjustments to resource allocations over the $450 million level:

(a) Change of ratio between TRAC 1.1.1 and 1.1.2 from 60-40 per cent to 50-50 per cent;

(b) Elimination of country TRAC 1.1.2 limitation while fully adhering to the principle of priority allocation to low income countries and least developed countries; and

(c) Introduction of maximum 10 per cent flexibility to facilitate movement of TRAC1.1.2 resources between regions.

B. How to measure effectiveness?

13. Implicit in Executive Board decisions 2002/18 and 2005/26 is a call for a review of the general effectiveness of the programming arrangements in terms of specific and in some cases quantifiable measures that are embedded in the current arrangements. As may be appreciated, some care must be applied in using the term 'effectiveness' since no results are specified and the existing programming arrangements do not have specified performance measures, benchmarks or baselines at an appreciated level. Reviews and evaluations of development results and impacts at the country, regional or global levels, as such are the responsibility of each programme or line manager and reported separately to the Executive Board.[5]

14. At the macro level of the programming arrangements, several indicators might be inferred from the existing legislation and supporting Executive Board documents. First among these is compliance with the legislation – that regular resources have been allocated according to the decisions of the Executive Board. Other indicators may be used to gauge general effectiveness in terms of performance. Additional measures might include: responsiveness to macro-level changes, the balancing of country level versus corporate level demands, support to United Nations coordination, and predictability. Some of these are discussed below.

C. The financial framework

15. The current financial framework sets out purposes for which core resources can be used in line with the key objectives of the organization and according to defined principles. Since the de-linking of the biennial budget, the framework focuses solely on programme and some programme substantive activities. Individual lines are established under the fixed and variable components for specific needs and purposes. Annex 1

16. The current framework is organized into two major groupings: fixed and variable lines. The fundamental distinction between variable and fixed lines is that the former is tied to the volume of UNDP country programmes, while the latter are not. Technically, fixed programme lines are treated in the same way as biennial budget lines: i.e. they constitute a first call on core resources. The present resource allocation hierarchy is as follows: 1 - the biennial budget and other adjustments; 2 - the fixed programme lines; and 3 - the variable programme lines.

[4] A third area was a proposal and decision for a separate, predictable level of funding for the Programme of Assistance to the Palestinian People (programming arrangements), which was in line with General Assembly resolution A/RES/33/147 and pursuant to Executive Board decisions.

[5] At the individual line level, there is greater potential and a legislated mandate to carry out assessments of cost-effectiveness. The one major example is the recent evaluation of the Global Programme, where some elements proved to be cost-ineffective in some cases (e.g. staff policy advisors vs. contracted policy advice in some situations). Other line programs have also been evaluated or could be evaluated (e.g. regional programmes, south-south, etc).

17. A fixed share or percentage of the overall core planning figure endorsed by the Executive Board is earmarked for each line of the framework. In monetary terms, the earmarkings are necessarily tentative in nature as they are based on a *targeted* level of total core resources for the four-year financial period. This target may or may not be realized depending on the actual level of voluntary contributions. The relative percentage shares for different programming lines constitute the basis for dividing up whatever 'pie' of regular resources becomes available for programming in the given period (annex 2).

18. A first test or measure of the effectiveness of the programming arrangements and the use core resources is compliance with the existing legislation. With respect to legislative compliance, core resources have been allocated according to the governing Executive Board decisions, the results of which were presented to the Executive Board in the mid-term review (DP/2005/18). Specifically, UNDP conducted the midterm recalculation of TRAC 1.1.1 earmarkings in accordance with the distribution methodology approved in decision 2002/18 for the 2004-2007 programming period in order to ensure methodological consistency. The proposals for re-allocations based on the recalculation however were not accepted.

19. A second test of the effectiveness of the arrangements can be viewed in terms of: (a) the overall use of core resources to support the UNDP mandate and business model; (b) the allocation and alignment of core resources in the financial framework (i.e., linkage of lines to main development and operational priorities and programmes); and (c) the actual utilization of these resources through the implementation of core funded programmes and activities. It is beyond the scope of this review to assess the programming arrangements from the third perspective. However, some observations can be made on overall structure of the financial framework and its alignment to the UNDP mandate.

20. First, the financial framework is a complex mix of funding allocations according to (a) substantive programming components at the country, global and inter-country levels, (b) line item inputs (i.e. economist lines) and (c) organization unit funding (e.g., the Human Development Report Office and the Office of Development Studies). As such, the financial framework is not directly aligned with the UNDP business model or practice architecture. It is at the lower levels of budgeting and programme planning within each of the programme components that such alignment takes place.

21. Second, the number of lines in the financial framework is related to flexibility and simplicity: the fewer number of lines, the greater the levels of flexibility and simplicity. The number was reduced from 25 lines in the fifth programming cycle, 1992-96 (see DP/1995/3) to 16 lines in Executive Board decision 1995/23 (see DP/1995/32, table 1), and then to a smaller number of 12 lines in the previous cycle (DP/1998/34). The framework in the current cycle still has 12 lines. The reduced number of lines is seen as a move toward greater simplification and flexibility in terms of review/approvals, format, allocations, and related internal management practices. The partitioning of line 1.6 into three distinct sub-lines is seen to have reduced some flexibility on the part of the Administrator to allocate/re-allocate resources across the Human Development Report Office, Office of Development Studies and the economists programme. Further, all lines remain non-fungible: that is, the Administrator cannot change the allocations across lines without the explicit approval of the Executive Board.

D. Fixed and variable lines

22. In its decision 2002/18, the Executive Board established fixed earmarkings in terms of dollar amounts for a number of programme lines (see box 2). This was seen to support a higher degree of predictability and assurance of funding for those components that were (a) considered essential for key substantive operations at the country level; (b) required a critical mass of funding to function effectively; and (c) responded to essential programme or programme-related demands that were not, or were only very indirectly, affected by fluctuations in the overall magnitude of UNDP programme activities. The decision was made at a time of declining core resources, which were considered to impose undue risk to their continuing viability.

Box 2. Fixed programming lines	**Base allocation** ($ millions)
Line 1.4 Evaluation	2.5
Line 1.5 South-South cooperation	3.5
Line 1.6 Human Development Report Office	5.3
Line 1.6 Office of Development Studies	1.1
Line 1.6 Economists programme	4.5
Line 3.1.1 Development support services	6.0
Line 3.1.2 Support to resident coordinator	13.5

23. As with the biennial support budget, which has first call on available regular resources, the affected components have the next call on resources available for programming. The Executive Board decision resulted in fixed absolute amounts when the minimum level of available programme resources is at or above the annual target of $450 million. The fixed lines are adjusted prorata when resources fall below $450 million. Thus, fixed lines do not receive additional regular funding if available programme resources exceed the $450 million target, but the variable lines receive both increased relative percentages and absolute amounts.

24. In view of the significant increases in flows of all resources and associated increases in workload, all the fixed programme components have experienced increased demand for their services and functions (some of which are discussed below). Nonetheless, as implied in the term 'fixed', there is a degree of rigidity in the existing formula where Executive Board allocations cannot be increased to the fixed lines without the explicit approval of the Executive Board. This tends to limit the flexibility and responsiveness of UNDP to fund potentially increased demands for services from the fixed lines.

E. Annual targets for regular resources

25. With the turnaround and increase in flows of regular resources over the past few years, the setting of annual targets in the order of $1.1 billion changed. At the time of the preparation of the 2004-2007 arrangements, UNDP was still facing a crisis in declining flows. The argument was made and an option discussed at the time that setting a lower annual target would reflect the reality of lower actual levels of voluntary contributions, but this would also reduce the expectation for a greater level of voluntary contributions.

26. The target of $1.1 billion has not changed for the past several programming cycles. In principle, the target for core resources should be aligned to the business needs, i.e., the funds required to support the programming mandate and arrangements of UNDP. Currently, the sources and applications of funds in UNDP at the country office and corporate levels is a complex mix. The targeting and allocation of core resources appears to serve as a resources supply to programmes and operations, with any shortfalls picked up by extra-budgetary income and non-core sources.

IV. Review of selected line components of the programming arrangements

27. This chapter reviews selected components, programmes or lines of the existing arrangements and financial framework. Special attention is given to the overall TRAC system, and especially those components dealing with the country distribution criteria and methodology, the TRAC 1.1.2 system and the establishment of a minimum level of funding for each country office. Other programme lines and facilities are also assessed, which comprise primarily the fixed lines of the financial framework.[6]

A. The TRAC system

A.1 TRAC facilities and features

28. The TRAC system is complex, having evolved over the past 15 years to replace the previous entitlement based system of funding according to indicative planning figures. Executive Board decisions in respect of the current arrangements basically extended the principles, practices and approaches of the preceding cycle, with a number of somewhat technical incremental changes. The major changes affected the TRAC facilities and associated distribution methodologies. Box 3, below, contains a brief description of each TRAC facility. The main changes were: (a) the existing formula no longer applied to two separate pools; (b) the low income countries' allocation range was set at 85-91 per cent, (c) provision was made for a mid-term recalculation of TRAC 1.1.1 earmarkings; (d) the net contributor country grace period was extended from three years to four, and (e) a minimum allocation of $350,000 was established for all non-net contributor countries and multi-country offices.

29. Through a limited online survey of country offices supporting the present review, some feedback on the overall effectiveness of TRAC as a resourcing system was received. With half of the respondents located in middle income countries and the rest in low income countries for the most part, the survey confirmed that regardless of income categorization and geographical location TRAC remains an extremely important programming base (61 per cent of respondents termed TRAC 'absolutely crucial' and 32 per cent view it as 'very important'). The perception generally held even for those countries where the majority of resources are non-core, that TRAC is important regardless of other non-core opportunities. Box 3

[6] Some of the programme lines are not assessed, since they are subject to separate reviews, evaluations and requirements for reporting to the Executive Board. These include the global and regional programmes and TRAC 1.1.3.

presents some of the most significant qualitative feedback received from country offices.

Box 3. Country office survey: sample qualitative feedback on TRAC

"TRAC is the core resources to support UNDP corporate agenda in line with the national development priority and thus it is absolutely essential and the amount is critical."

"TRAC resources are critical as seed capitalization funding that allows for support to TA and strategic capacity building initiatives in the preparatory assistance phase of programme projects, and in the subsequent phase of programme implementation where crucial capacity building needs arise, to facilitate effective implementation of priority interventions."

"In recent years our ability to mobilize resources has increased and TRAC has become less essential to sustain the programme. It is, however, essential to initiate it. I can quote at least two cases (justice, decentralization, [and] elections) where UNDP TRAC was used to initiate programmes in areas no donor had engaged in before. Because UNDP could show some progress, other donors decided to come in. And because UNDP had already an established partnership and track record, most donors decided to join UNDP rather than set up their own programmes. In this case TRAC was not just crucial to start the programmes, but also key to resources mobilization."

"Given the fact that locally available funding is extremely limited in the country, TRAC resources are crucial to capitalize our effective programming and match the government cost sharing."

30. The main concerns with TRAC were the general insufficiency of funds and inadequate method/criteria for country distributions, a long-standing issue. The low levels of TRAC in middle income countries relative to funding available from other donors was reported to put UNDP at a disadvantage – i.e. the UNDP position and credibility as a 'policy advisor' was constrained by limited availability of funds. Nonetheless, 66 per cent of the country office respondents would rather maintain the current universal focus on TRAC distribution.

A.2. Country distribution methodology

31. The TRAC 1.1.1 distribution methodology is governed by: (a) focus on low-income and least developed countries; (b) progressivity in favour of lower-income countries; (c) the universal nature of UNDP operations as reflected in net contributor country arrangements and minimum TRAC 1.1.1 allocations; and (d) predictability, which is aimed at avoiding abrupt downward changes in programmes and which is achieved through the floor provisions. Individual country TRAC 1.1.1 earmarkings are calculated based on World Bank Atlas per capita gross national income and population as the primary criteria.

Box 4. The TRAC facilities

The **TRAC 1.1.1** earmarking represents the minimum level of resources *targeted* to be available for an individual programme country during the given financial period. It is calculated in accordance with the approved distribution methodology that uses per capita gross national income and population as the primary criteria.

TRAC 1.1.2 resources are in the first instance earmarked by region *(not* by individual country) for subsequent country allocation on the basis of the quality of the planned UNDP assisted programmes. The TRAC-1.1.2 earmarking for a given region is equal to two-thirds of the total TRAC 1.1.1 earmarking for all countries in that region. The TRAC 1.1.2 assignment for an individual country is expressed as a percentage of the country's TRAC 1.1.1 earmarking, and may range from 0 to 100 percent (averaging 66.67%). Recent changes to the TRAC 2 allocation method are discussed below.

The **TRAC 1.1.3** facility was established to provide the Administrator with the capacity to respond quickly and flexibly to the needs of countries in special development situations

32. In the light of these principles, and in terms of meeting the legislative requirements reflected in Executive Board decisions 2002/18 and 2005/26, the combined TRAC 1.1.1 and TRAC 1.1.2 earmarking accounts for 78.8 per cent of core programme resources available for the variable programme lines. Of this amount, 60 per cent is allocated to TRAC 1.1.1 line for the core programme resource levels below or equal $450 million. For core programme resource levels over $450 million, the ratio between TRAC 1.1.1 and TRAC 1.1.2 is 50:50 (annex 2).

33. The current methodology for TRAC 1 resources distribution among the individual countries that is primarily based on gross national income (GNI) per capita and population was introduced in the context of the 1995 Successor Programming Arrangements proposals as a result of an in depth analysis of the existing distribution system that was complex, rigid and not responding to UNDP' needs. As a result, the resource distribution methodology was reviewed with the objective of introducing greater flexibility and simplicity, while maintaining the focus on low income countries and, GNI per capita and population were retained as the main criteria for TRAC-1 resources distribution.

34. As UNDP mandate and role have evolved it is increasingly felt that the existing criteria might not reflect adequately the need for UNDP services and support to programme countries. GNI per capita measures income poverty and does not capture multi-dimensions of poverty as for example the human development index (HDI) that measures different aspects of human depravation. Though no new distribution criteria were proposed for the EB discussions on the 2003-2007 programming cycle, it was suggested at the time to investigate this option for application in future arrangements.

A.3. The enhanced TRAC 1.1.2 allocation framework

35. The arrangements governing the assignment of TRAC 1.1.2 resources were originally established by Executive Board decision 95/23 and later re-affirmed with some slight modifications by decisions 98/19, 99/2 and 2002/18. In essence, the TRAC 1.1.2 facility was designed to provide the Administrator with the flexibility

to allocate resources to high-impact, high-leverage activities and to reward programme quality. However, despite its original policy intent, the flexibility and effectiveness of the TRAC 1.1.2 facility was constrained by a number of factors, the most significant of which was the earlier decline in regular resources plus the mandated distribution principles and ceilings that limited the flexibility of resource flows across countries and categories, including the amount that could be allocated to an individual country. The review of the programming arrangements conducted in late 2001 revealed that most country offices found the distribution results of the TRAC 1.1.2 system had basically mirrored the results of the TRAC 1.1.1 allocation system and was not seen as a flexible instrument for the pursuit of quality programmes.

Box 5. TRAC 1.1.2 resources available above the programming base level of $450 million

- Ratio of earmarking between TRAC 1.1.1 and 1.1.2.: the ratio is set at 50-50 %.
- Established regional percentages: unchanged; the percentages remain as per decision 2002/18.
- Regional distribution: there is a flexibility of up to 10% above or below regional pro-rata shares of total TRAC 1.1.1. This flexibility would allow movement of resources between regions and would be utilized in exceptional cases.
- Country limitation: There is no country limitation between TRAC 1.1.1 and TRAC 1.1.2, while fully adhering to the principle of priority allocation to low-income countries and least developed countries.

36. The flexibility of the TRAC 1.1.2 line has also been constrained by a range of restrictions. These include (a) the mandated share of at least 60 per cent for least developed countries; (b) the need to respect the 85-91 per cent percentage range for low-income countries; (c) the regional shares (the same percentage shares as in TRAC .1.11); and (d) the ceiling on an individual country TRAC1.1.2 allocation, set at 100 per cent of its TRAC 1.1.1 allocation.

37. Based on these concerns and proposals from UNDP, temporary changes were made to the TRAC 1.1.2 allocation system through Executive Board decision 2005/26, as highlighted in box 5. The purpose of these changes is to concentrate the additional resources on building national capacities to implement the MDGs. UNDP developed and implemented in late 2005 the enhanced allocation framework in order to support a coherent, coordinated response to the MDGs and the Executive Board decision. The following presents a summary of the context, the legislation and its implementation, and the results of an internal UNDP review of TRAC 1.1.2 performance.

38. The enhanced allocation framework comprises three components that represent the criteria for allocating TRAC 1.1.2 resources: (a) the MDG policy factor (40 per cent weight, representing UNDP support to MDG based investment and planning, and widening policy options and choices); (b) the MDG delivery factor (40 per cent weight, capturing UNDP support for effective national service delivery and programme implementation); and (c) the MDG opportunity factor (20 per cent weight, reflecting an 'opportunity' factor to support development and business opportunities).

39. *Initial technical review.* The methodology for the internal review of TRAC 1.1.2 performance has been based on a series of stages and collection/analysis of data from several sources. The first stage was an internal technical review carried in early 2006. The main highlights were:

40. *Allocation performance.* "...allocation flexibility has allowed for the $78.8 million TRAC 1.1.2 to be equally apportioned with TRAC-1 (50-50 per cent) at the aggregate (regional) level and to exceed 100 per cent of TRAC-1 at the country level".

41. *Variability of method across regional bureaux.* A second major finding was that all regional bureaux followed the enhanced TRAC 1.1.2 allocation framework criteria and the allocation model in allocating TRAC 1.1.2 resources on the basis of country demand. However, there was considerable variability in the approach and method taken by each bureau.

42. *Supplementary analysis.* In addition, through a supplementary analysis of available data, it was found that the 2006-2007 distributions complied with Executive Board legislation requiring that 85-91 per cent of TRAC-1 and TRAC-2 resources are provided to low-income countries, and at least 60 per cent to least developed countries. A number of countries benefited from the newly introduced flexibility of assigning TRAC 1.1.2 without the 100 per cent ceiling vis-à-vis TRAC 1.1.1 (annex 3).

43. The same analysis indicates that the regional distribution of TRAC 1.1.1 and TRAC 1.1.2 resources above $450 million was in line TRAC 1.1.1 and TRAC 1.1.2 distribution at $450 million (which the Executive Board had originally approved for the period 2004-2007). The 10 per cent flexibility between regional bureaux approved by the Executive Board was not leveraged.

44. With respect to above point, since the TRAC 1.1.2 regional shares mirror those of TRAC 1.1.1, adjustments would require that one region give up a certain percentage of its TRAC 1.1.2 regional share in favour of another region with specific needs. No submissions were made by the regional bureaux that would have resulted in the proposed alteration of regional shares, so it is not known whether or not opportunities for such reallocations existed.

45. It is important to recognize that it is still too early to carry out a complete assessment, since only a year of experience has been gained in applying the model. Nonetheless, some early indications of effectiveness are seen.

A.4. Establishment of the $350,000 minimum floor

46. A decision was made in 2002 to provide countries with a UNDP presence with a minimum capital funding in order (a) that a minimum level of resources would be available as seed money for the mobilization of additional resources for all countries where UNDP is active, and (b) to ensure a minimum UNDP core programme presence in some 70-plus middle-income countries (48 country offices, eight of which are multi-country offices). The resulting decision was a base minimum of $350,000 TRAC 1.1.1 distribution to all non-net contributor countries and multi-country country offices.

47. Based on internal analysis of allocation data, the main findings are as follows:

48. *Multi-country offices*[7]. The gain in terms of additional core programme resources is significant, as all eight of the multi-country offices substantially increased their TRAC-1 and TRAC-2 allocations from 15 per cent to over 50 per cent. These offices may be seen as having acquired a needed critical mass of resources to jump-start programming and meet related needs.

49. *Other offices*. Of the remaining 40 country offices that received additional core resources through the application of the minimum floor, 20 country offices received TRAC 1.1.1. and TRAC 1.1.2 increases equal to or above 100 per cent, five country offices equal to or above 75 per cent, three county offices equal to or above 50 per cent, and 12 country offices received increases equal to or below 50 per cent.

A.5. Shift to a four-year cycle and grace periods

50. The shift to a four-year cycle to coincide with the multi-year funding framework cycle has resulted in some changes to the programming arrangements and allocation of resources. This shift was the right move towards a full synchronization of the programming arrangements, the future strategic plan and the budget. One of the implications of this shift is the extension of the net contributor country grace period and the mid-term recalculation of TRAC 1.1.1 earmarkings. There is little to say about the Executive Board decision to extend the cycle, other than that it was logical. However, the decision also resulted in the automatic extension of the grace period from three years to four for graduating net contributor countries. The grace period was introduced and has remained in the programming arrangements to ensure a degree of predictability and gradual phasing-out of core funding for net contributor countries, thus avoiding an abrupt cut in core funding.

51. The extension of the grace period has had an impact on the amount of regular funds available for programming under TRAC 1.1.1 and 1.1.2. Using the continued minimum floor of $350,000 and existing $4,700 per capita gross national income threshold, and extending by one year available programming to a total of 28 net contributor countries (based on the current threshold and 2004 per capita gross national income), an additional amount of $9.8 million has been allocated to transitional net contributor countries.

B. Review of other programming lines

52. It is beyond the scope of the present review to address the performance and effectiveness of most of the other lines in the programming arrangements, since these programmes are subject to separate approval, review and reporting to the Executive Board. For example, the global and regional programmes are submitted to the Executive Board and are subject to periodic reviews and evaluations; performance is reported to the Executive Board. A recent example is the major evaluation of the global programme. However, this review has examined some programming lines, presented below.

[7] Multi-country offices: Barbados, El Salvador, Fiji, Jamaica, Mauritius, Samoa, the Slovak Republic, and Trinidad and Tobago.

B.1. Development support services (line 3.1)

53. The funding arrangements for the development support services facility were introduced by the UNDP Governing Council in decision 89/20. It enables resident representatives to obtain independent short-term expert advice. This fund can be used only for substantive advice on programme matters in support of the country programme. The facility became a separate line in the current financial framework with a total annual allocation of $6.0 million. On average, countries receive about $45,000 per year and funds are distributed equitably to the country offices. Despite the limited amount, it was found that this funding is critical to upstream activities that effectively support priority areas of country programmes.

B.2. Evaluation (line 1.4)

54. The importance of evaluation as a programme function or activity has been increasing over the past several years due to the need for greater accountability and oversight. Evaluation, however, is a 'core' component of the UNDP for purposes other than accountability, i.e., learning and strategic management. The core funding of the evaluation function is directed at the Evaluation Office.

55. A recent peer review of the UNDP evaluation function found that the Evaluation Office has performed "...at an acceptable level of independence and produces evaluations that are credible, valid and useful for learning and strategy formation in UNDP".[8] The review endorses the draft UNDP evaluation policy, and makes a series of suggestions geared to strengthening the evaluation function, including a direct reporting line from the Director of the Evaluation Office to the Executive Board.

56. The same peer review presented a series of recommendations of a funding and budgeting nature, which, if adopted, would have an impact on the programming arrangements and the allocation of core resources. One of them is to mandate a built-in allocation for decentralized project and outcome evaluations in operational budgets. Against this background, internal management took the decision to exceptionally allow the evaluation line to borrow $2.5 million for use during 2006-2007 against their notional 2008-2009 allocation.

B.3. Economists programme (line 1.6)

57. The economists line funds 27 economists based at the country level, the majority of them in Africa. The allocation was based on the UNDP proposal that the economists, inter alia, "...are involved in providing strategic and policy analysis support to country offices, analysis of development opportunities and constraints – particularly in support of country-level policy dialogue with client Governments and other development partners, as well as the provision of policy advisory services in all the six practice areas. They also contribute significantly to the development, delivery and mainstreaming of specific policy instruments and services into national development initiatives".[9] The Regional Bureau for Africa recently carried out an internal review of the programme. The review revealed that there is a strong and

[8] See *Peer Assessment of Evaluation in Multilateral Organizations: United Nations Development Programme*, Ministry of Foreign Affairs of Denmark, Evaluation Department, 16 December 2005, page 1 of the response letter from the Administrator, UNDP.

[9] See DP/02/28, 'Report on programming arrangements for the period 2004-2007', 27 August 2002, page 10.

increasing in-country demand for economist related services, particularly in the design and implementation of national development strategies aligned with the MDGs, pro-poor policy formulation, and related areas. However, the model of sharing international economists among two or three country offices is found not to have been successful, with both (resident and recipient) country clients dissatisfied with the level of support provided.

58. Another general concern noted for the programme as a whole is the need for flexibility on the part of country offices or the bureaux to be able respond to emerging needs and priorities that may be broader in nature (such as governance, public administration reform or the environment, etc.).

B.4 Human Development Report Office (line 1.6)

59. The Human Development Report (HDR) was launched in 1990 with the goal of placing people at the centre of the development process in terms of the development of debate, policy and advocacy. The HDR has evolved over the years to become a significant policy document on development thinking at the global level, which has also led to the preparation of national and regional HDRs. The current allocation of regular resources for this line stands at $5.3 million annually, which had previously been sourced from the global programme and other sources. In view of the importance of the HDR, the Executive Board decided to put the function on a stable minimum funding base, established as a fixed line within the current financial framework.

60. As a separate line, the allocation now funds the activities of the HDR Office. These activities span writing background papers, country studies, data research and preparing tables for statisticians to derive figures for the human development index, gender equality papers, and workshops with advisory groups. The office is also the secretariat for setting the common standards for national HDRs, building HDR websites, sponsoring human development training courses and developing HDR summaries in different languages and preparing related publications.

61. There have been no formal evaluations of the HDR function or the HDR Office, other than some coverage in a recent assessment of the global programme. In that report, it was found in respect of the HDR that "...this 'flagship' of development advocacy enabled UNDP to reach media and public opinion on a worldwide scale and to influence the global development discourse. From its first issue in 1990, it addressed themes of basic relevance to international cooperation for development..."[10]. The Board also has before it the evaluation of the national human development reports system.

B.5. Office of Development Studies (line 1.6)

62. Funding was allocated to the Office of Development Studies (ODS) on a stable basis in the current cycle, in the amount of $1.1 million annually. Funding was approved by the Executive Board on the case that ODS contributes to the global development role of UNDP by providing forward-looking policy analyses and promoting research partnerships with leading 'think-tanks' around the world on issues of sustainable human development. The office has published a number of books and discussion papers and organizes round tables, meetings and lecture series.

[10] See 'Assessment of the Second Global Cooperation Framework (GCF-II) of UNDP, UNDP, EO, 2004, page 10.

63. The work of ODS was also addressed in the assessment of the global programme. It was found in that report that the products of the ODS had generally advanced the debate of sustainable human development with the production of several documents, but that little of this had found its way into UNDP mainstream thinking and programme development.[11]

B.6. South-South programme (line 1.5)

64. The case made for the current arrangements that the South-South programme (previously referred to as the technical cooperation among developing countries facility) was important, because it is designed to finance the sharing of South-South experiences, expertise and knowledge with the specific aim of making this an integral part of country, regional and interregional programmes and to introduce cost-effective modalities for South-South technical cooperation. The decision was made to establish a fixed line and annual allocation of $3.5 million as a stable base of funding. The facility supports a wide range of initiatives for developing new approaches to employment creation, social protection, labour welfare, pension reform and social security, particularly for individuals in the informal sector, as well as addressing certain aspects of HIV/AIDS. Support is also provided to several international fora, conferences and workshops, as well as to selected associations.

V. Conclusion and next steps

65. The next steps in the review of the programming arrangements will result in the identification and development of concrete proposals for change that will be directly linked to and supportive of the implementation of the UNDP strategic plan as it is formulated.

66. In connection with the UNDP strategic plan, concrete options and proposals will be developed for the 2008-2011 arrangements that would address, among other critical issues:

(a) The degree to which the implementation of current arrangements can be further streamlined and simplified, taking into consideration both existing legislation and the substantive and structural changes taking place throughout UNDP.

(b) Effectiveness, continued relevance and proposals for the current methodology and criteria used for distribution of TRAC resources.

(c) Options and proposals for changes in current arrangements to effectively support the priorities and goals of the 2008-2011 UNDP Strategic Plan.

(d) Options and proposals for further harmonization of UNDP programming arrangements around best practices with those of United Nations Development Group, especially the ExCom agencies.

(e) Formal proposal for a successor programming arrangement, based on the above-noted options and others that may be considered.

[11] Ibid, pages 12-14.

Annex 1

Annualized application of resources at $450 million for the period 2004-2007

UNDP programme and support to operational activities of the United Nations	Percentage of resources available for programming under variable lines	Approved variable and fixed annual allocations at $450 million ($ millions)
I. Variable lines		
Country		
Lines 1.1.1. and 1.1.2. - TRAC	78.8%	325.9
Lines 1.1.3 - TRAC	7.2%	29.8
Subtotal	***86.0%***	***355.7***
Inter-country		
Line 1.2 - Regional	9.0%	37.2
Line 1.3 - Global	5.0%	20.7
Subtotal	***14.0%***	***57.9***
Total variable lines	**100.0%**	**413.6**
II. Constant lines		
Country		
Lines 3.1.1 - DSS		6.0
Lines 3.1.2 - Programme support to the resident coordinator		13.5
Subtotal		***19.5***
Inter-country		
Line 1.4 - Evaluation		2.5
Line 1.5 - Special resources for TCDC		3.5
Line 1.6 - HDRO/ODS/Economist		10.9
Subtotal		***16.9***
Total constant lines		**36.4**
Grand total		**450.0**

Annex 2

Annualized application of resources at $450m and above $450m for the period 2004-2007

UNDP programme and support to operational activities of the United Nations	Percentage of resources available for programming under variable lines (1)	Approved variable and fixed annual allocations at $450m (millions $) (2)	Approved variable annual allocations above $450m (millions $) (3)	Actual assignment of resources: Equal to column (2) 2004 (4)	Equal to column (2) 2005 (5)	Equal to column (2) plus column (3) for variable lines 2006 (6)	Equal to column (2) plus column (3) for variable lines 2007 (7)	Total
I. Variable lines								
Country								
Lines 1.1.1 and 1.1.2 - TRAC	78.6%	325.9	78.6	325.9	325.9	404.7	404.7	1 461.3
Lines 1.1.3 - TRAC	7.2%	29.8	7.2	29.8	29.8	37.0	37.0	133.5
Subtotal	***86.0%***	***355.7***	***86.0***	***355.7***	***355.7***	***441.7***	***441.7***	***1 594.8***
Inter-country								
Line 1.2 - Regional	9.0%	37.2	9.0	37.2	37.2	46.2	46.2	166.9
Line 1.3 - Global	5.0%	20.7	5.0	20.7	20.7	25.7	25.7	92.7
Subtotal	***14.0%***	***57.9***	***14.0***	***57.9***	***57.9***	***71.9***	***71.9***	***259.6***
Total variable lines	***100.0%***	***413.6***	***100.0***	***413.6***	***413.6***	***513.6***	***513.6***	***1 854.4***
II. Constant lines								
Country								
Lines 3.1.1 - DSS		6.0		6.0	6.0	6.0	6.0	24.0
Lines 3.1.2 - Programme support to the resident coordinator		13.5		13.5	13.5	13.5	13.5	54.0
Subtotal		***19.5***		***19.5***	***19.5***	***19.5***	***19.5***	***78.0***
Inter-country								
Line 1.4 - Evaluation		2.5		2.5	2.5	2.5	2.5	10.0
Line 1.5 - Special resources for TCDC		3.5		3.5	3.5	3.5	3.5	14.0
Line 1.6 - HDRO/ODS/Economist		10.9		10.9	10.9	10.9	10.9	43.6
Subtotal		***16.9***		***16.9***	***16.9***	***16.9***	***16.9***	***67.6***
Total constant lines		**36.4**		**36.4**	**36.4**	**36.4**	**36.4**	**145.6**
Grand total		**450.0**	**100.0**	**450.0**	**450.0**	**550.0**	**550.0**	**2 000.0**

Annex 3

Countries with TRAC-2 percentages against TRAC-1 exceeding 100%.*
(for the $78.8 million TRAC-2 resources for the years 2006 and 2007)

Region	Country	Percentage of TRAC-2 against TRAC-1	
		2006	2007
Africa	Benin	107%	107%
	Democratic Republic of the Congo	111%	111%
	Eritrea	108%	108%
	Ethiopia	106%	106%
	Gabon	105%	105%
	Ghana	111%	111%
	Kenya	112%	112%
	Lesotho	112%	112%
	Malawi	106%	106%
	Mauritania	111%	111%
	Mozambique	103%	103%
	Namibia	110%	110%
	Nigeria	106%	106%
	Swaziland	102%	102%
	Uganda	104%	104%
	United Republic of Tanzania	105%	105%
	Zambia	112%	112%
Asia and Pacific	Afghanistan	106%	106%
	Bangladesh	110%	110%
	Bhutan	116%	116%
	Cambodia	107%	107%
	Indonesia	102%	102%
	Kiribati	104%	104%
	Lao People's Democratic Republic	116%	116%
	Maldives	112%	112%
	Mongolia	101%	101%
	Myanmar	102%	102%
	Nepal	116%	116%
	Pakistan	111%	111%
	Palau	101%	101%
	Papua New Guinea	106%	106%
	Philippines	107%	107%
	Samoa	110%	110%
	Solomon Islands	114%	114%
	Sri Lanka	104%	104%
	Timor-Leste	116%	116%
	Tuvalu	109%	109%
	Vanuatu	103%	103%
Arab States	Algeria	104%	104%
	Egypt	110%	110%
	Jordan	102%	102%
	Lebanon	110%	110%
	Somalia	102%	102%
	Sudan	102%	102%
	Syrian Arab Republic	102%	102%
Latin America and Caribbean	Belize	111%	111%
	Brazil	117%	117%
	Colombia	125%	125%
	Dominica	217%	217%
	Dominican Republic	125%	125%
	Grenada	217%	217%
	Guatemala	114%	114%
	Honduras	261%	261%
	Montserrat	221%	221%
	Paraguay	176%	176%
	Saint Lucia	217%	217%
	Saint Vincent and the Grenadines	217%	217%
	Suriname	264%	264%
	Trinidad and Tobago	892%	892%
	Uruguay	113%	113%
Europe and Commonwealth of Independent States	Albania	261%	
	Azerbaijan	116%	
	Belarus	146%	
	Bosnia and Herzegovina	110%	
	Bulgaria	140%	
	Croatia	178%	
	Kazakhstan	154%	
	Kyrgyzstan	146%	
	Republic of Moldova	111%	
	Russian Federation	123%	106%
	Serbia and Montenegro	117%	124%
	Tajikistan	142%	
	Turkey	126%	106%
	Turkmenistan	126%	

* As approved in Decision 2005/26:" … while fully adhering to the principle of priority allocation to low-income countries and Least Developed Countries … eliminate the current limitation on country allocations between TRAC lines 1.1.1 and 1.1.2." Per the same decision, an additional $100 million of resources was earmarked for the years 2006 and 2007 of which 78.8% went to TRAC lines 1.1.1 and 1.1.2 (see Annex 2 column 3) and the ratio was changed from 60-40 per cent to 50-50 per cent.